



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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June 9, 2010

TO: Supervisor Gloria Molina, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **AUDIT OF THE SOUTHERN CALIFORNIA EDISON COMPANY  
FRANCHISE AGREEMENT**

In December 1956, the Board of Supervisors (Board) entered into a franchise agreement with Southern California Edison Company (SCE) to install electrical transmission/distribution facilities along highways in unincorporated areas of the County of Los Angeles. The franchise agreement requires SCE to pay the County two percent of its gross annual receipts arising from the use, operation or possession of the franchise.

At the request of the Chief Executive Office (CEO), we contracted with a Certified Public Accounting firm, Mayer Hoffman McCann P.C. (Mayer), to audit SCE's gross receipts and payments to the County for calendar years 2001 through 2005. Mayer also verified whether SCE's payments complied with the California Public Utilities Code and all legislative/regulatory changes enacted during the audit period. The CEO requested the audit to identify changes that should be made to the franchise agreement with SCE, which expired at the end of 2006. The franchise agreement has been extended on a year-to-year basis through June 30, 2011.

**Summary of Findings**

Mayer's report (Attachment A) indicates that SCE underreported its gross receipts by approximately \$36 million over the five-year audit period. As a result, Mayer reported that SCE owes the County \$720,250 in franchise fees. While SCE does not agree with

all of Mayer's findings, in an effort to reach a compromise, the County and SCE recently signed a settlement agreement for SCE to pay the County \$700,250 (97% of the amount identified by Mayer). Payment is due by June 28, 2010.

Approximately \$23.9 million of the \$36 million in underreported gross receipts is due to SCE not including revenue from the sale of surplus/excess energy through the California Independent System Operator and other energy contracts. In addition, SCE did not report revenue from the following:

- Transmitting other utilities' energy through SCE's transmission lines.
- Service connection/reconnection and late payment fees.
- Connecting other utilities' transmission lines to SCE's.
- Transmitting energy during heavy demand and line capacity congestion.
- Energy settlements and incentive plan awards.
- Other miscellaneous revenue.

Mayer's management letter (Attachment B) included recommendations for changes to the SCE franchise agreement. For example, clarifying the meaning of "gross annual receipts arising from the use, operation or possession of the franchise", including examples of revenue types that should be included/excluded from the franchise revenue calculation, and more clearly describing how to calculate franchise revenues.

### **Review of Report**

Mayer discussed their findings with SCE, the CEO, County Counsel and Auditor-Controller staff on several occasions during the review. As noted earlier, although SCE does not agree with all the findings, the County and SCE recently signed a settlement agreement for SCE to pay the County \$700,250 (97% of the amount identified by Mayer). Payment is due by June 28, 2010

The County departments generally agree with the recommendations in Mayer's management letter. The CEO plans to incorporate the recommendations into the new franchise agreement that will be effective July 1, 2011. Please call me if you have questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS

### **Attachments**

c: William T Fujioka, Chief Executive Officer  
Les Starck, Vice President of Local Public Affairs, SCE  
Paul J. Loh, Esq., Legal Counsel, SCE  
Public Information Office  
Audit Committee



**Mayer Hoffman McCann P.C.**

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February 3, 2010

Auditor-Controller  
County of Los Angeles  
Audit Division  
350 S. Figueroa St.  
Los Angeles, CA 90071

Accompanying this letter is our final report associated with the agreed upon procedures that were applied by our firm to the accounting records of Southern California Edison Company ("the franchisee") for the period from January 1, 2001 through December 31, 2005 with respect to the franchise agreement that permits the use of transmission lines installed in public rights of way in unincorporated areas of Los Angeles County.

This report identifies approximately \$720,000 of additional franchise revenue due from the franchisee to the County of Los Angeles. As required by the auditing standards, the date of our report reflects the date that we completed performance of the procedures identified in the report. This occurred in January 2009. Because of the significance of the issues raised by our engagement, the franchisee was provided an opportunity to provide additional information with respect to the issues identified by our procedures. Significant discussion took place with respect to this information and our conclusions were modified with respect to certain issues as a result of the information provided. This process was completed in December, 2009. Upon completion of this process, our final audit report was prepared and released.

We have also issued our management letter to the County of Los Angeles advising the County of our recommendations to enhance internal controls over the County's administration of the franchise agreement.

Please feel free to give me a call if you have any questions. I can be reached at (949) 474-2020 (extension 273) or at [kalimam@cbiz.com](mailto:kalimam@cbiz.com).

Sincerely,

MAYER HOFFMAN MCCANN P.C.

A handwritten signature in blue ink, appearing to read "Ken Al-Imam".

Ken Al-Imam, C.P.A.  
Shareholder

**COUNTY OF LOS ANGELES**

**Independent Review of Compliance by  
Southern California Edison Company of  
Terms of County Franchise**

**For the period January 1, 2001  
Through December 31, 2005**

ATTACHMENT A

COUNTY OF LOS ANGELES

Independent Review of Compliance by  
Southern California Edison Company of  
Terms of County Franchise

For the period January 1, 2001  
through December 31, 2005

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ATTACHMENT A

Auditor-Controller  
County of Los Angeles  
Los Angeles, California

**Southern California Edison Company Franchise**  
**Independent Accountants' Report on Procedures Performed**

We have applied certain procedures, as enumerated below, which were agreed to by the County of Los Angeles (the "County"), to the accounting records of Southern California Edison Company ("SCE") for the period January 1, 2001 through December 31, 2005. This engagement was performed to determine if SCE's franchise fee computations and reporting are in compliance with the franchise agreement between SCE and the County.

This engagement to test SCE's records was performed in accordance with attestation standards established by the *American Institute of Certified Public Accountants*. The sufficiency of the procedures was solely determined by the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

**BACKGROUND**

Effective in December of 1956, the County and SCE entered into a franchise agreement (Ordinance No. 7062), allowing SCE to transmit and distribute electricity in the County unincorporated highways, ways, and alleys for a period of fifty years after the effective date of the Ordinance. The Ordinance requires that SCE pay to the County "two percent (2%) of the gross annual receipts arising from the use, operation or possession of this franchise". As a result, the percentages that are used to calculate the amount of gross receipts/imputed revenue and the amounts due to the County are affected when revenue is overstated/understated in SCE's Franchise Fee Reports.

On November 18, 2008, the Board of Supervisors of the County adopted Ordinance No. 2008-0060F, to extend the term of the franchise agreement with SCE through December 31, 2009.

**SUMMARY OF FINDINGS**

The procedures performed and the results of those procedures are identified below in detail. The following is a summary of the findings noted as a result of those procedures. The impacts of these findings are reflected in Exhibits A-1 through E-2.

The following chart summarizes the total amount owed to the County as a result of the findings below:

<u>Calendar Year</u>	<u>Franchise Fee Report</u>	<u>Exhibit</u>
2001	\$ 45,085	A-1
2002	47,902	B-1
2003	154,136	C-1
2004	200,162	D-1
2005	<u>272,965</u>	E-1
Total	<u>\$720,250</u>	

The total of the finding amounts stated below vary from the above schedule by \$51 due to rounding.

1. Surplus/Excess Energy – Revenues generated from sales of surplus/excess energy through the Independent System Operator (ISO) and sales in accordance with other energy contracts were excluded from “Gross Revenues” in 2003-2005. The impact on franchise fees due is \$477,557 which is reflected in Adjustment 1 on Exhibits C-1, D-1 and E-1 and in more detail on Exhibits C-2, D-2 and E-2. Further discussion of the finding can be found on pages 5 to 6, procedure 3.
2. Use of Transmission Line – Revenues received for energy of others transmitted through SCE transmission lines at the direction of the ISO (line rental) arising from the use of the franchise were excluded from “Gross Revenues” in 2001-2005. The impact on franchise fees due is \$115,502 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1. Further discussion of the finding can be found on pages 6 to 7, procedure 4.
3. Settlements/Incentive Plan Awards – Amounts relating to income received for energy settlements and California Public Utility Commission incentive plan awards were excluded from “Gross Revenues” in 2001-2005. The impact on franchise fees due is \$31,855 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1. Further discussion of the finding can be found on page 7, procedure 4.
4. Establish/Reconnection – Revenues generated from fees charged to establish and connect a new customer as well as reconnect customers who were disconnected from electric service were excluded from “Gross Revenues” in 2001-2005. The impact on franchise fees due is \$21,126 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1. Further discussion of the finding can be found on page 7, procedure 4.



5. Connection to Transmission Lines – Revenues received for the connection of transmission lines of other parties to the SCE transmission line distribution system were excluded from “Gross Revenues” in 2001-2005. The impact on franchise fees due is \$16,685 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1. Further discussion of the finding can be found on page 7, procedure 4.
6. Late Payments – Revenues generated from late fees charged to residential and commercial customers were excluded from “Gross Revenues” in 2001-2005. The impact on franchise fees due is \$13,598 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1. Further discussion of the finding can be found on pages 7 to 8, procedure 4.
7. ISO - Congestion Revenue – Revenues received for ISO congestion charges related to the transmission of energy during times of heavy demand and line capacity congestion. The impact on franchise fees due is \$11,701 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1. Further discussion of the finding can be found on page 8, procedure 4.
8. Original Cost of Electric Plant – Amounts reported as original cost of electric plant and original cost of transmission and distribution systems were misclassified in 2003. This affected percentages that are used to calculate the amount of gross receipts/imputed revenue, and the amount due to the County. The finding results in \$218 less in franchise fees due which is reflected in Adjustment 2 on Exhibit C-1. Further discussion of the finding can be found on page 10, procedure 8.
9. Miles of Transmission and Distribution Systems – We noted 10.39 miles net discrepancies in mileage per the 2005 Franchise Fee Reports which is reflected in Adjustment 3 on Exhibits E-1. The finding results in \$374 less in franchise fees due which is reflected in Adjustment 3 on Exhibit E-1. Further discussion of the finding can be found on page 11, procedure 11.
10. Other Items – Revenues generated from numerous sources were excluded from “Gross Revenues” in 2001-2005. The impact on franchise fees due is approximately \$32,869 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1. Further discussion of the finding can be found on pages 8 to 9, procedure 4.

#### PROCEDURES PERFORMED

Our procedures performed and results are as follows:

1. We obtained an understanding of Ordinance No. 7062, the Broughton Act (Public Utilities Code, §§ 6001-6071), Public Utilities Code §§ 6354(b) and relevant case law.



2. We obtained Annual Franchise Fee Reports for each of the five years during the period from January 1, 2001 through December 31, 2005. We obtained an understanding of the methodology used by SCE to calculate the franchise fee and tested the mathematical accuracy of SCE's Franchise Fee Reports. We also recalculated the franchise fee in accordance with the methodology per the California Supreme Court case "County of Los Angeles vs. Southern Counties Gas" (42 Cal.2d 129).

Results: No exceptions were noted as a result of these procedures. However, regarding Direct Access Municipal Surcharges (Surcharges), SCE only reports the total Surcharges collected from each transportation customer on the annual Franchise Fee Report submitted to the County but not the actual calculations. As a result, the County is requesting future submissions of the annual Franchise Fee Report to the County to include the actual calculations of the Surcharges to demonstrate full compliance with CPUC Section 6352.

The calculation of the Franchise Fee is based on the following two primary components and sub-components:

**Gross Receipts Applicable to Transmission and Distribution Systems:**

- Gross Receipts Subject to the Franchise
- Original Cost of Electric Plant

**Miles of Transmission and Distribution Systems:**

- Total Miles of Transmission and Distribution Systems
- Miles of Transmission and Distribution Systems under Franchise in County

The remainder of the report is broken up into these two components and subsections.

**Gross Receipts Applicable to Transmission and Distribution Systems**

The franchise fee calculation applies SCE's total gross receipts to SCE's investment in transmitting and distributing agencies (property used in transmitting and distributing electricity) located in the County's rights of way as a percentage of SCE's total investment in transmitting and distributing agencies to extrapolate the gross receipts applicable to the franchise. This calculation methodology is supported by case law as a practical, but not exclusive, approach to estimating gross receipts applicable to the franchise.

**Gross Receipts Subject to the Franchise**

Ordinance No. 7062 requires SCE to pay the County "two percent (2%) of the gross annual receipts of the grantee (SCE) arising from the use, operation or possession of this franchise." The Ordinance further specifies that gross receipts shall include amounts attributable "in both highways under the jurisdiction of the County and in state highways within the unincorporated area of the County." The Ordinance specifies that gross receipts refer to amounts "received, or accrued in connection with the furnishing of the commodity or service arising from the use, operation or possession of this franchise."

The California Supreme Court case "County of Los Angeles vs. Southern Counties Gas" (42 Cal.2d 129) includes the following relevant conclusions:

- "Gross receipts...arise from all of its operative property, whether or not such property is located on rights of way, public or private, or on land owned or leased by it or on land owned by others."
- Gross receipts arising from the use of generating plants, powerhouses, and private rights of way were properly excluded from gross receipts applicable to the franchise.

The California Supreme Court case "County of Tulare v. City of Dinuba" (188 Cal. 664) includes the following relevant conclusions:

- Gross receipts applicable to the franchise will not include receipts "attributable to the use of private rights of way occupied by the utility".
3. We reviewed excluded revenues per SCE's Gross Light and Power Revenue schedules for 2001 to 2005 to determine if they should have been included in the computation of gross receipts subject to the franchise.

Results: The following amounts were incorrectly excluded by SCE from its computation of gross receipts subject to the franchise. These revenues arose from the possession of the franchise. SCE would not have received these revenues but for its possession of the franchise. They are therefore includable in the amount of gross receipts subject to apportionment between public and private rights-of-way.

#### Surplus/Excess Energy

Sales for Resale of Surplus/Excess Energy – Total revenue collected was \$1,465,167,536 in 2003-2005. SCE indicated that sales for resale of surplus/excess energy to other energy contracts are not includable as it is not billed to ultimate customers in the franchise service territory. The impact on franchise fees due is \$385,244 which is reflected in Adjustment 1 on Exhibits C-1, D-1 and E-1 and in more detail on Exhibits C-2, D-2 and E-2.

Sales of Surplus/Excess Energy – Total revenue collected was \$351,339,486 in 2003-2005. SCE indicated that sales of surplus/excess energy through the ISO are not includable as it is not billed to ultimate customers in the franchise service territory. The impact on franchise fees due is \$92,313 which is reflected in Adjustment 1 on Exhibits C-1, D-1 and E-1 and in more detail on Exhibits C-2, D-2 and E-2.

Year	Franchise (Gross Receipts) Fees due based on the 2% fee of the applicable gross receipts			Exhibit
	(A) As calculated by MHM	(B) As reported by SCE	(A-B) Total Franchise Fee Due	
2001	\$ 2,398,877	2,398,877	-	
2002	2,775,430	2,775,430	-	
2003	\$ 2,819,808	2,714,613	105,195	C-2
2004	2,866,184	2,716,078	150,106	D-2
2005	<u>3,118,614</u>	<u>2,896,358</u>	<u>222,256</u>	E-2
Total	<u>\$13,978,913</u>	<u>13,501,356</u>	<u>477,557</u>	

4. We traced the total Gross Receipts from operations as reported on the Franchise Fee Reports to SCE's consolidated statements of income for the years 2001-2005. We traced exclusions of operating revenues to SCE's consolidation worksheets and detailed statements of income.

Results: The following amounts were incorrectly excluded by SCE from its computation of gross receipts subject to the franchise. These revenues arose from the possession of the franchise. SCE would not have received these revenues but for its possession of the franchise. They are therefore includable in the amount of gross receipts subject to apportionment between public and private rights-of-way.

#### Use of Transmission Line

Firm Transmission Rights Auction Revenue (estimated \$270,553,260 in 2001-2005) – Per SCE, "Firm Transmission Rights Auction Revenue.... Revenue from annual ISO auction of firm transmission lines (use of our transmission lines)." The impact on franchise fees due is \$69,100 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

Revenue – Transmission of Electricity – Others (estimated \$108,323,640 in 2001-2005) – Per SCE, "Revenue – Transmission of Electricity – Others.... Revenue received for the transmittal through SCE transmission lines of electricity owned by other utility entities." The impact on franchise fees due is \$27,667 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

ISO – Wheeling Revenue (estimated \$58,741,800 in 2001-2005) – Per SCE, "ISO – Wheeling Revenue... Revenue received for energy of others transmitted through SCE transmission lines at the direction of the ISO (line rental)." The impact on franchise fees due is \$15,003 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

Wholesale Distribution Access Tariff (estimated \$14,612,100 in 2001-2005) – Per SCE, “Wholesale Distribution Access Tariff.... Transmission related services provided to Public Power Utilities utilizing non-ISO controlled facilities under Federal Energy Regulatory Commission (FERC) approved Wholesale Distribution Access Tariff (WDAT) service agreements.” The impact on franchise fees due is \$3,732 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

#### Settlements/Incentive Plan Awards

Miscellaneous Nonoperating Income (estimated \$124,726,680 in 2001-2005) – Per SCE, “Miscellaneous Non-operating Income.... Amounts relating to income generating from nonoperating activities including the shareholder portion of energy settlements and CPUC [California Public Utilities Commission] incentive plan awards.” Also, “TCF [Target Capacity Factor] Incentive Plan Rewards.... Includes shareholder portion of energy settlements and CPUC incentive plan awards.” The impact on franchise fees due is \$31,855 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

#### Establish/Reconnection

Service Establishment Charges (estimated \$55,701,660 in 2001-2005) – Per SCE, “Service Establishment Charges.... Amounts relate to fees charged to establish and connect a new customer to electric service.” The impact on franchise fees due is \$14,227 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

Service Reconnection Charges (estimated \$27,016,320 in 2001-2005) – Per SCE, “Service Establishment Charges.... Amounts relate to fees charged to reconnect customers who have been disconnected from service for various reasons.” The impact on franchise fees due is \$6,899 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

#### Connection to Transmission Lines

Interconnect Finance – Facility Charges (estimated \$65,329,440 in 2001-2005) – Per SCE, “Interconnect Finance – Facility Charges.... Charges for the maintenance of interconnection facilities construction to connect a producer’s or customer’s generation facility to SCE’s system.” The impact on franchise fees due is \$16,685 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

#### Late Payments

Late Payment Charges-Commercial and Industrial (estimated \$36,518,100 in 2001-2005) – Per SCE, “Late Payment Charges Commercial and Industrial.... Amounts received relate to late payment charges for commercial and industrial customers.” The impact on franchise fees due is \$9,327 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

Forfeited Discounts (estimated \$11,280,420 in 2001-2005) – Per SCE, “Forfeited Discounts.... Amounts received relate to late payment charges for both residential and commercial and industrial customers. Prior to 2002 year amounts were recorded mainly in this account.” The impact on franchise fees due is \$2,880 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

Residential Late Payments (estimated \$5,448,000 in 2001-2005) – Per SCE, “Residential Late Payments.... Amounts recorded relate to late payment charges for residential electric customers.” The impact on franchise fees due is \$1,391 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

#### ISO-Congestion Revenue

ISO-Congestion Revenue (estimated \$45,810,540 in 2001-2005) – Per SCE, “Independent System Operator Congestion Revenue.... Revenue recorded for ISO Congestion charges related to the transmission of energy during times of heavy demand and line capacity congestion.” The impact on franchise fees due is \$11,701 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

#### Other Items

Field Collection Charges (estimated \$21,890,880 in 2001-2005) – Per SCE, “Field Collection Charges.... Amounts recorded relate to additional charges for processing payments collected in the field by SCE field service personnel.” The impact on franchise fees due is \$5,591 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

Revenue – Adelphia – Non Tariff (estimated \$20,068,560 in 2002-2005) – Per SCE, “Revenue – Adelphia – Non Tariff.... Revenue – Installation Management Services.... Revenue recorded to perform services to cable and communications providers for installation of power supplies and other communications equipment.” The impact on franchise fees due is \$5,193 which is reflected in Adjustment 1 on Exhibits B-1, C-1, D-1 and E-1.

Miscellaneous Service Revenue – Other (estimated \$18,554,400 in 2001-2005) – Per SCE, “QuickCheck Revenue.... Amounts relate to additional charges for processing “QuickCheck” transactions over the phone which post real-time to the SCE customer’s bank account.” The impact on franchise fees due is \$4,739 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

Gain on Disposition of Property-Transmission (estimated \$15,663,960 in 2001-2005) – Per SCE, “Gain on Disposition of Property-Transmission.... Gain on sale (disposition) of utility owned transmission facilities to other parties.” The impact on franchise fees due is \$4,000 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

Miscellaneous Service Revenue – Ownership Cost (estimated \$14,168,520 in 2001-2005) – Per SCE, “Miscellaneous Service Revenue – Ownership Cost.... Revenue recorded for the administrative costs to review open work orders for customers who have advanced funds for construction projects.” The impact on franchise fees due is \$3,619 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

Interconnect Facilities Charges (estimated \$11,577,240 in 2001-2005) – Per SCE, “Interconnect Facilities Charges.... Revenues received for the connection of transmission lines of other parties to the SCE transmission line distribution system.” The impact on franchise fees due is \$2,957 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

Miscellaneous Electric Revenues (estimated \$10,260,060 in 2001-2005) – Per SCE, “Miscellaneous Electric Revenues.... Other revenues associated with the operation of the utility for which a specific account has not been established. Examples include 3<sup>rd</sup> party work, one-time added facilities work, and other items not includable in other Federal Energy Regulatory Commission (FERC) revenue categories.” “One-Time Added Facilities Charges.... Revenues from construction of added facilities where actual costs incurred were lower than bid for the added facilities.” The impact on franchise fees due is \$2,623 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

Joint Pole Rentals (estimated \$8,897,940 in 2001-2005) – Per SCE, “Joint Pole Rentals.... Rental income relating to the rental of distribution pole space for use by other utilities such as telephone and cable television companies.” The impact on franchise fees due is \$2,272 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

Generation Business Unit – Operation and Maintenance (O & M) Services (estimated \$7,340,100 in 2001-2005) – Per SCE, “Generation Business Unit – Operation and Maintenance.... Revenue from O & M contracts to provide services to generation plants previously owned by SCE and divested prior to the implementation of direct access generation provider choices.” The impact on franchise fees due is \$1,875 which is reflected in Adjustment 1 on Exhibits A-1, B-1, C-1, D-1 and E-1.

Results: No exceptions were noted as a result of these procedures.

### Original Cost of Electric Plant

5. We obtained summarized schedules by asset type for the years 2001 through 2005. We recalculated the schedules for mathematical accuracy. We compared the total investment in distributing agencies per the schedules to the amounts listed on each of the five Franchise Fee Reports.

Results: There were no variances found for the 2001, 2003, 2004 or 2005 year FERC Reports; however, the following variances were found for the 2002 Report:

#### Line 42

	<u>Additions</u>	<u>Adjustments</u>
FERC Amount	\$ 247,516,047	\$193,030,044
Footed Amount	<u>173,046,637</u>	<u>118,560,634</u>
Variance	<u>74,469,410</u>	<u>74,469,410</u>

Lines 42 & 88

	<u>Additions</u>	<u>Adjustments</u>
FERC Amount	1,112,669,071	193,333,956
Footed Amount	<u>1,038,199,661</u>	<u>118,864,546</u>
Variance	<u>\$ 74,469,410</u>	<u>\$ 74,469,410</u>

Though variances were noted, these variances had no effect on the amount of franchise fees due to the County due to the immateriality of the amounts involved. The reclassification made by SCE ultimately did not affect the Total Electric Plant in Service.

6. Per inquiry with SCE staff, we determined which components of above mentioned asset schedules were considered public rights of way and private rights of way. We recalculated the assets identified as public and private rights of way and compared our calculations to the amounts listed on the Franchise Fee Reports.

Results: No exceptions were noted as a result of these procedures.

7. We compared Electric Plant in Service additions and retirements listed on the FERC Report from 2001 through 2005 to the Detail List of Additions and Deletions for Electric Plant in Service for each respective year.

Results: The selected accounts in the 2001 through 2005 Additions and Retirements Detail Lists were traced to the respective accounts on the FERC Reports without exception.

8. We compared electric plant in service per SCE's 2001 through 2005 FERC Report to SCE's Electric Plant in Service Lead Schedule for each of the respective years

Results: In 2003 SCE over-reported the original cost of electric plant in service (Misc Intangible Plant) by \$314,397 and the original cost of transmission and distribution systems (Land and Land Rights) by \$840,516. The net effect of both variances is a net decrease in franchise payment due of \$218.

9. We compared selected items on the Electric Plant in Service Detailed Listing of Additions and Retirements to the Audit List of Released Work Orders. We selected samples of 105 additions and 70 retirement accounts during 2001-2005 to determine if overall additions and retirements were properly documented.

Results: All items selected from the Detailed Listing agreed to the Audit List of released Work Orders without exception.



**Miles of Transmission and Distribution Systems**

**Total Miles of Transmission and Distribution Systems**

10. As noted above, we recalculated all percentages and other calculations on the Franchise Fee Reports to ensure mathematical accuracy.

Results: No calculation errors were noted.

**Miles of Transmission and Distribution Systems Under Franchise in County**

11. We obtained and reviewed a detailed report of franchise footage by class (including transmission and distribution system footage, and public and private lands footage) for the year ending December 31, 2005. We converted the total footage to miles and compared the resulting figure to the total miles of transmission and distribution systems per the franchise statement.

Results: As a result of the testing performed, we noted a variance of 10.39 miles between SCE's detailed DPB 1512 report with SCE's summary DPB 2242 report (73,129 miles vs. 73,119 miles, respectively). Consequently, there was an understatement of 10.39 miles of transmission and distribution system on the 2005 Franchise Statement. This resulted in a \$374 franchise fee overpayment by SCE.

12. We selected a sample of 200 unincorporated map areas out of SCE's approximately 150,000 overhead and underground AutoCAD maps for testing. The map areas tested included 78 overhead areas and 122 underground areas. We recalculated total non-franchise/franchise feet per the AutoCAD maps and compared the totals to SCE's Franchise Statistical Ad Valorem (FSA) system. FSA system reports are used to report total non-franchise/franchise miles on the Franchise Statements.

Results: Based on testwork performed, there was a net variance of 10,597 feet or approximately 2.01 miles between the AutoCAD maps and the FSA system. The most significant variance was 8,093 feet of franchise streetlight footage on an AutoCAD map that was mistakenly recorded as non-franchise footage in FSA. Other variances tended to cancel each other out; the net effect of the variances was immaterial.

13. For the sample of 200 unincorporated map areas above, we also compared the totals per the FSA system (as of April 2007) to an archived detail report provided by SCE (SCE's DPB 1512, Distribution A519 report as of December 2005).

Results: Based on testwork performed, the FSA system (as of April 2007) showed 32,700 feet or approximately 6.19 miles more than SCE's archived detail report (as of December 2005). However, most of the variance was due to a lack of contemporaneous records and a lack of agreement between map/drawing numbers used.

**Other Compliance Issues**

14. We evaluated SCE's compliance with Sections 26 and 27 of the Ordinance. The Ordinance requires SCE to provide an annual report to the County showing the permit number of each permit obtained since the last report covering the installation of new mains and the length and size of the mains. The Ordinance further requires SCE to pay the County \$100 per new mile or fraction thereof within 90 days of the year end, subject to a 1% per month charge on unpaid amounts.

Results: An annual report was not submitted to the County for the years during the period from January 1, 2001 to December 31, 2005. The County requires full compliance with the reporting requirements of Sections 26 and 27 of the Ordinance.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the County with respect to the Southern California Edison Company Franchise and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

*Mayor Holtzman McCune R.C.*

Irvine, California  
January 9, 2009

# ATTACHMENT A

## Southern California Edison Company 2001 Franchise Fee Report

## EXHIBIT A-1

<u>Line</u>	<u>As Reported by SCE</u>	<u>Adjustment</u>	<u>As Revised by MHM</u>
1. Gross annual receipts derived from sale of electricity in all service areas.	\$ 9,922,194,295	186,483,012 (1)	10,108,677,307
2. Original cost of electric plant, exclusive of electric plant held future uses, intangible plant, new construction work not yet in operation and rental properties.	20,528,638,112	-	20,528,638,112
3. Original cost of transmission and distribution systems, consisting of towers, poles, underground conduits, conductors, line transformers, services and appurtenances.	7,845,047,960	-	7,845,047,960
Percent allocable to transmission and distribution systems. [Line 3 / Line 2]	38.21514%	-	38.21514%
4. Gross annual receipts allocable to transmission and distribution systems [Line 1 * (Line 3 / Line 2)]	3,791,780,521	71,264,746	3,863,045,266
5. Total miles of transmission and distribution systems.	70,808.31 mi.	-	70,808.31 mi.
6. Miles of transmission and distribution systems under franchise in County (i.e., on public right of way).	2,239.85 mi.	-	2,239.85 mi.
Percent of total miles allocable to use, operation, or possession of franchise [Line 6 / Line 5]	3.16326%	-	3.16326%
7. Gross annual receipts arising from use, operation, or possession of franchise [Line 4 * (Line 6 / Line 5)]	119,943,826	2,254,288	122,198,114
8. Franchise payment [2% * Line 7]	<u>2,398,877</u>	<u>45,085</u>	<u>2,443,962</u>
9. Direct Access Municipal Surcharge	-	-	-
10. Franchise Payment Due [Line 8 + Line 9]	<u>\$ 2,398,877</u>	<u>45,085</u>	<u>2,443,962</u>

The amounts presented have been estimated based on data provided by SCE.

(1) Gross receipts have been adjusted as follows:

Use of Transmission Line	\$ 90,446,160
Settlements/Incentive Plan Awards	24,945,336
Establish/Reconnection	16,543,596
Connection to Transmission Lines	13,065,888
ISO-Congestion Revenue	9,162,108
Late Payments	10,649,304
Other Items	<u>21,670,620</u>
	<u>\$ 186,483,012</u>

# ATTACHMENT A

## Southern California Edison Company 2002 Franchise Fee Report

## EXHIBIT B-1

<u>Line</u>	<u>As Reported by SCE</u>	<u>Adjustment</u>	<u>As Revised by MHM</u>
1. Gross annual receipts derived from sale of electricity in all service areas.	\$11,095,524,800	191,500,152 (1)	11,287,024,952
2. Original cost of electric plant, exclusive of electric plant held future uses, intangible plant, new construction work not yet in operation and rental properties.	20,981,467,785	-	20,981,467,785
3. Original cost of transmission and distribution systems, consisting of towers, poles, underground conduits, conductors, line transformers, services and appurtenances.	8,230,653,115	-	8,230,653,115
Percent allocable to transmission and distribution systems. [Line 3 / Line 2]	39.22820%	-	39.22820%
4. Gross annual receipts allocable to transmission and distribution systems [Line 1 * (Line 3 / Line 2)]	4,352,575,172	75,122,071	4,427,697,244
5. Total miles of transmission and distribution systems.	71,245.40 mi.	-	71,245.40 mi.
6. Miles of transmission and distribution systems under franchise in County (i.e., on public right of way).	2,271.49 mi.	-	2,271.49 mi.
Percent of total miles allocable to use, operation, or possession of franchise [Line 6 / Line 5]	3.18826%	-	3.18826%
7. Gross annual receipts arising from use, operation, or possession of franchise [Line 4 * (Line 6 / Line 5)]	138,771,499	2,395,088	141,166,588
8. Franchise payment [2% * Line 7]	<u>2,775,430</u>	<u>47,902</u>	<u>2,823,332</u>
9. Direct Access Municipal Surcharge	-	-	-
10. Franchise Payment Due [Line 8 + Line 9]	<u>\$ 2,775,430</u>	<u>47,902</u>	<u>2,823,332</u>

The amounts presented have been estimated based on data provided by SCE.

(1) Gross receipts have been adjusted as follows:

Use of Transmission Line	\$ 90,446,160
Settlements/Incentive Plan Awards	24,945,336
Establish/Reconnection	16,543,596
Connection to Transmission Lines	13,065,888
ISO-Congestion Revenue	9,162,108
Late Payments	10,649,304
Other Items	<u>26,687,760</u>
	<u>\$ 191,500,152</u>

## ATTACHMENT A

Southern California Edison Company  
2003 Franchise Fee Report

## EXHIBIT C-1

<u>Line</u>	<u>As Reported by SCE</u>	<u>Adjustment</u>	<u>As Revised by MFM</u>
1. Gross annual receipts derived from sale of electricity in all service areas.	\$10,300,663,606	601,185,953 (1)	10,901,849,559
2. Original cost of electric plant, exclusive of electric plant held future uses, intangible plant, new construction work not yet in operation and rental properties.	21,395,823,120	(314,397) (2)	21,395,508,723
3. Original cost of transmission and distribution systems, consisting of towers, poles, underground conduits, conductors, line transformers, services and appurtenances.	8,666,399,790	(840,516) (2)	8,665,559,274
Percent allocable to transmission and distribution systems. [Line 3 / Line 2]	40.50510%	-0.00333%	40.50177%
4. Gross annual receipts allocable to transmission and distribution systems [Line 1 * (Line 3 / Line 2)]	4,172,294,210	243,147,591	4,415,441,800
5. Total miles of transmission and distribution systems.	71,734.82 mi.	-	71,734.82 mi.
6. Miles of transmission and distribution systems under franchise in County (i.e., on public right of way).	2,273.70 mi.	-	2,273.70 mi.
Percent of total miles allocable to use, operation, or possession of franchise [Line 6 / Line 5]	3.16959%	-	3.16959%
7. Gross annual receipts arising from use, operation, or possession of franchise [Line 4 * (Line 6 / Line 5)]	132,244,639	7,706,783	139,951,421
8. Franchise payment [2% * Line 7]	<u>2,644,893</u>	<u>154,136</u>	<u>2,799,028</u>
9. Direct Access Municipal Surcharge	69,720	-	69,720
10. Franchise Payment Due [Line 8 + Line 9]	<u>\$ 2,714,613</u>	<u>154,136</u>	<u>2,868,749</u>

The amounts presented have been estimated based on data provided by SCE.

## (1) Gross receipts have been adjusted as follows:

Surplus/Excess Energy	\$ 409,685,801
Use of Transmission Line	90,446,160
Settlements/Incentive Plan Awards	24,945,336
Establish/Reconnection	16,543,596
Connection to Transmission Lines	13,065,888
ISO-Congestion Revenue	9,162,108
Late Payments	10,649,304
Other Items	<u>26,687,760</u>
	<u>\$ 601,185,953</u>

## (2) Original cost has been adjusted as follows:

Electric plant	\$ (314,397)
Transmission and distribution systems	\$ (840,516)

## ATTACHMENT A

Southern California Edison Company  
2003 Surplus/Excess Energy Underpayment Schedule

## EXHIBIT C-2

<u>Line</u>	<u>As Reported by SCE</u>	<u>Adjustment</u>	<u>As Revised by MHM</u>
1. Gross annual receipts derived from sale of electricity in all service areas.	\$ 10,300,663,606	409,685,801 (1)	10,710,349,407
2. Original cost of electric plant, exclusive of electric plant held future uses, intangible plant, new construction work not yet in operation and rental properties.	21,395,823,120	-	21,395,823,120
3. Original cost of transmission and distribution systems, consisting of towers, poles, underground conduits, conductors, line transformers, services and appurtenances.	8,666,399,790	-	8,666,399,790
Percent allocable to transmission and distribution systems. [Line 3 / Line 2]	40.50510%	-	40.50510%
4. Gross annual receipts allocable to transmission and distribution systems [Line 1 * (Line 3 / Line 2)]	4,172,294,210	165,943,648	4,338,237,858
5. Total miles of transmission and distribution systems.	71,734.82 mi.	-	71,734.82 mi.
6. Miles of transmission and distribution systems under franchise in County (i.e., on public right of way).	2,273.70 mi.	-	2,273.70 mi.
Percent of total miles allocable to use, operation, or possession of franchise [Line 6 / Line 5]	3.16959%	-	3.16959%
7. Gross annual receipts arising from use, operation, or possession of franchise [Line 4 * (Line 6 / Line 5)]	132,244,639	5,259,734	137,504,373
8. Franchise payment [2% * Line 7]	<u>2,644,893</u>	<u>105,195</u>	<u>2,750,087</u>
9. Direct Access Municipal Surcharge	69,720	-	69,720
10. Franchise Payment Due [Line 8 + Line 9]	<u>\$ 2,714,613</u>	<u>105,195</u>	<u>2,819,808</u>

The amounts presented have been estimated based on data provided by SCE.

**This schedule demonstrates the impact of Finding #1 - Surplus/Excess Energy, only.**

(1) Gross receipts have been adjusted for sales and sales for resale of surplus/excess energy.

## ATTACHMENT A

Southern California Edison Company  
2004 Franchise Fee Report

## EXHIBIT D-1

<u>Line</u>	<u>As Reported by SCE</u>	<u>Adjustment</u>	<u>As Revised by MHM</u>
1. Gross annual receipts derived from sale of electricity in all service areas.	\$ 9,429,589,770	765,764,743 (1)	10,195,354,513
2. Original cost of electric plant, exclusive of electric plant held future uses, intangible plant, new construction work not yet in operation and rental properties.	22,350,974,761	-	22,350,974,761
3. Original cost of transmission and distribution systems, consisting of towers, poles, underground conduits, conductors, line transformers, services and appurtenances.	9,156,449,717	-	9,156,449,717
Percent allocable to transmission and distribution systems. [Line 3 / Line 2]	40.96667%	-	40.96667%
4. Gross annual receipts allocable to transmission and distribution systems [Line 1 * (Line 3 / Line 2)]	3,862,988,774	313,708,303	4,176,697,077
5. Total miles of transmission and distribution systems.	72,554.96 mi.	-	72,554.96 mi.
6. Miles of transmission and distribution systems under franchise in County (i.e., on public right of way).	2,314.69 mi.	-	2,314.69 mi.
Percent of total miles allocable to use, operation, or possession of franchise [Line 6 / Line 5]	3.19026%	-	3.19026%
7. Gross annual receipts arising from use, operation, or possession of franchise [Line 4 * (Line 6 / Line 5)]	123,239,286	10,008,102	133,247,389
8. Franchise payment [2% * Line 7]	2,464,786	200,162	2,664,948
9. Direct Access Municipal Surcharge	251,292	-	251,292
10. Franchise Payment Due [Line 8 + Line 9]	\$ 2,716,078	200,162	2,916,240

The amounts presented have been estimated based on data provided by SCE.

(1) Gross receipts have been adjusted as follows:

Surplus/Excess Energy	\$ 574,264,591
Use of Transmission Line	90,446,160
Settlements/Incentive Plan Awards	24,945,336
Establish/Reconnection	16,543,596
Connection to Transmission Lines	13,065,888
ISO-Congestion Revenue	9,162,108
Late Payments	10,649,304
Other Items	26,687,760
	<u>\$ 765,764,743</u>



# ATTACHMENT A

## Southern California Edison Company 2004 Surplus/Excess Energy Underpayment Schedule

EXHIBIT D-2

Line	As Reported by SCE	Adjustment	As Revised by MHM
1. Gross annual receipts derived from sale of electricity in all service areas.	\$ 9,429,589,770	574,264,591 (1)	10,003,854,361
2. Original cost of electric plant, exclusive of electric plant held future uses, intangible plant, new construction work not yet in operation and rental properties.	22,350,974,761	-	22,350,974,761
3. Original cost of transmission and distribution systems, consisting of towers, poles, underground conduits, conductors, line transformers, services and appurtenances.	9,156,449,717	-	9,156,449,717
Percent allocable to transmission and distribution systems. [Line 3 / Line 2]	40.96667%	-	40.96667%
4. Gross annual receipts allocable to transmission and distribution systems [Line 1 * (Line 3 / Line 2)]	3,862,988,774	235,257,071	4,098,245,844
5. Total miles of transmission and distribution systems.	72,554.96 mi.	-	72,554.96 mi.
6. Miles of transmission and distribution systems under franchise in County (i.e., on public right of way).	2,314.69 mi.	-	2,314.69 mi.
Percent of total miles allocable to use, operation, or possession of franchise [Line 6 / Line 5]	3.19026%	-	3.19026%
7. Gross annual receipts arising from use, operation, or possession of franchise [Line 4 * (Line 6 / Line 5)]	123,239,286	7,505,306	130,744,592
8. Franchise payment [2% * Line 7]	<u>2,464,786</u>	<u>150,106</u>	<u>2,614,892</u>
9. Direct Access Municipal Surcharge	251,292	-	251,292
10. Franchise Payment Due [Line 8 + Line 9]	<u>\$ 2,716,078</u>	<u>150,106</u>	<u>2,866,184</u>

The amounts presented have been estimated based on data provided by SCE.

**This schedule demonstrates the impact of Finding #1 - Surplus/Excess Energy, only.**

(1) Gross receipts have been adjusted for sales and sales for resale of surplus/excess energy.

# ATTACHMENT A

## Southern California Edison Company 2005 Franchise Fee Report

## EXHIBIT E-1

<u>Line</u>	<u>As Reported by SCE</u>	<u>Adjustment</u>	<u>As Revised by MHM</u>
1. Gross annual receipts derived from sale of electricity in all service areas.	\$ 9,873,747,605	1,024,056,782 (1)	10,897,804,387
2. Original cost of electric plant, exclusive of electric plant held future uses, intangible plant, new construction work not yet in operation and rental properties.	23,379,228,460	-	23,379,228,460
3. Original cost of transmission and distribution systems, consisting of towers, poles, underground conduits, conductors, line transformers, services and appurtenances.	9,790,155,734	-	9,790,155,734
Percent allocable to transmission and distribution systems. [Line 3 / Line 2]	41.87544%	-	41.87544%
4. Gross annual receipts allocable to transmission and distribution systems [Line 1 * (Line 3 / Line 2)]	4,134,675,654	428,828,325	4,563,503,979
5. Total miles of transmission and distribution systems.	73,119.08 mi.	10.39 (3)	73,129.47 mi.
6. Miles of transmission and distribution systems under franchise in County (i.e., on public right of way).	2,330.67 mi.	-	2,330.67 mi.
Percent of total miles allocable to use, operation, or possession of franchise [Line 6 / Line 5]	3.18750%	-0.00045%	3.18705%
7. Gross annual receipts arising from use, operation, or possession of franchise [Line 4 * (Line 6 / Line 5)]	131,792,748	13,648,232	145,440,980
8. Franchise payment [2% * Line 7]	<u>2,635,855</u>	<u>272,965</u>	<u>2,908,820</u>
9. Direct Access Municipal Surcharge	260,503	-	260,503
10. Franchise Payment Due [Line 8 + Line 9]	<u>\$ 2,896,358</u>	<u>272,965</u>	<u>3,169,323</u>

The amounts presented have been estimated based on data provided by SCE.

(1) Gross receipts have been adjusted as follows:

Surplus/Excess Energy	\$ 832,556,630
Use of Transmission Line	90,446,160
Settlements/Incentive Plan Awards	24,945,336
Establish/Reconnection	16,543,596
Connection to Transmission Lines	13,065,888
ISO-Congestion Revenue	9,162,108
Late Payments	10,649,304
Other Items	<u>26,687,760</u>
Total	<u>\$ 1,024,056,782</u>

(3) Total miles of transmission and distribution systems have been adjusted as follows:

Increase	10.39 mi.
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## ATTACHMENT A

Southern California Edison Company  
2005 Surplus/Excess Energy Underpayment Schedule

## EXHIBIT E-2

<u>Line</u>	<u>As Reported by SCE</u>	<u>Adjustment</u>	<u>As Revised by MHM</u>
1. Gross annual receipts derived from sale of electricity in all service areas.	\$ 9,873,747,605	832,556,630 (1)	10,706,304,235
2. Original cost of electric plant, exclusive of electric plant held future uses, intangible plant, new construction work not yet in operation and rental properties.	23,379,228,460	-	23,379,228,460
3. Original cost of transmission and distribution systems, consisting of towers, poles, underground conduits, conductors, line transformers, services and appurtenances.	9,790,155,734	-	9,790,155,734
Percent allocable to transmission and distribution systems. [Line 3 / Line 2]	41.87544%	-	41.87544%
4. Gross annual receipts allocable to transmission and distribution systems [Line 1 * (Line 3 / Line 2)]	4,134,675,654	348,636,786	4,483,312,440
5. Total miles of transmission and distribution systems.	73,119.08 mi.	-	73,119.08 mi.
6. Miles of transmission and distribution systems under franchise in County (i.e., on public right of way).	2,330.67 mi.	-	2,330.67 mi.
Percent of total miles allocable to use, operation, or possession of franchise [Line 6 / Line 5]	3.18750%	-	3.18750%
7. Gross annual receipts arising from use, operation, or possession of franchise [Line 4 * (Line 6 / Line 5)]	131,792,748	11,112,794	142,905,543
8. Franchise payment [2% * Line 7]	<u>2,635,855</u>	<u>222,256</u>	<u>2,858,111</u>
9. Direct Access Municipal Surcharge	260,503	-	260,503
10. Franchise Payment Due [Line 8 + Line 9]	<u>\$ 2,896,358</u>	<u>222,256</u>	<u>3,118,614</u>

The amounts presented have been estimated based on data provided by SCE.

**This schedule demonstrates the impact of Finding #1 - Surplus/Excess Energy, only.**

(1) Gross receipts have been adjusted for sales and sales for resale of surplus/excess energy.



**Mayer Hoffman McCann P.C.**

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ATTACHMENT B

Auditor-Controller  
County of Los Angeles  
Audit Division  
350 S. Figueroa St.  
Los Angeles, CA 90071

In planning and performing the agreed-upon procedures that were applied to the accounting records of the Southern California Gas Company and Southern California Edison Company ("the franchisees") for the period from January 1, 2001 through December 31, 2005, we noted certain matters that we believe represent opportunities for the County of Los Angeles (County) to strengthen its controls over the administration of the franchises.

#### **Suggestions for Improvements to Franchise Ordinance**

As a result of performing our procedures, certain issues came to our attention that gave us an opportunity to make recommendations to the County to enhance its administration of the franchise agreements:

- When the Ordinances and Franchise Agreements are extended, the County should clarify in these documents the meaning of the term "gross annual receipts arising from the use, operation or possession of this franchise". We recommend that "gross annual receipts" be defined to be "operating revenues, non-operating revenues and receipts credited to expense accounts that were generated directly or indirectly as a result of the ownership of the franchise". To further clarify this meaning, examples should be provided to illustrate their proper inclusion. The ordinance should be clear that the examples addressed are provided for illustration purposes only and are not meant to be all inclusive. If the County and the franchisee determine that there are allowable exclusions, those exclusions should also be listed. To assist the County in this regard, we have attached examples of operating and non-operating revenues and our recommendation for inclusion or exclusion.
- The County should consider defining "Investments" used in the calculation of franchise fees. The ordinance should define the asset value as the original cost of the asset. In addition, if the County and the franchisee determine that there are specific exclusions to "Investments", those exclusions should be specifically mentioned. Examples of matters to be determined to be included or excluded are mineral rights, cushion gas, construction in progress, and intangible assets. We recommend that all of the above examples be negotiated for inclusion as a part of the new ordinance, except for cushion gas. In addition, we recommend that the term "investments" be defined to be: "All property whether tangible or intangible that is used in the provision of services associated with the franchise. Such property includes, but is not limited to mineral rights, construction in progress, and intangible assets."
- The County should consider defining how the "Services" asset is allocated between public and private rights of way. *Services* represent capital assets located between the main and the meter. Since it is difficult to determine the assets physically located in the public vs. private right of way, the franchisee must estimate the percentage. In cases

public vs. private right of way, the franchisee must estimate the percentage. In cases where the franchisee has data to permit the computation of averages, the franchisee uses a 10 year average to determine this percentage. Generally the County uses 50% for purposes of this allocation between public and private rights of way. Due to the lack of substantial support for ten-year averaged data, we recommend that the new ordinance stipulate for purposes of simplicity and consistency a 50% allocation of services between public and private rights of way.

- The new ordinance should include reference to the public utilities code regarding Municipal Use Surcharges.
- The ordinance should include a requirement for periodic audits.
- The County uses the 2% (Broughton Act) method of calculating the franchise tax. The majority of other jurisdictions in California are using the greater of the 2% (Broughton Act) method or 1% of gross receipts generated within the jurisdiction (1937 Act). We recommend that the County include the "greater of" methodology in the new ordinance to ensure that it is receiving the maximum amount of franchise revenue allowed under State law.
- The new ordinance should include an illustration of the formula to be utilized when calculating the franchise revenue. The formula currently in use that may be memorialized in the new ordinance (if agreed to by the County) is:

All gross receipts  $\div$  all operative property =

The amount of gross receipts attributable to \$1 of operative property

The amount of gross receipts attributable to \$1 of operative property  $\times$  the operative property used in transmitting and distributing gas in Los Angeles County =

Gross receipts subject to the franchise

This communication is intended for the use of the County should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

*Margaret Hoffman, M. Council.*

Irvine, California  
January 9, 2009

## ATTACHMENT B

### *Attachment 1*

#### **Examples of Operating and Non-operating Revenue SCG**

<b><u>Type of Revenue</u></b>	<b><u>Recommended for Inclusion or Exclusion</u></b>
Balancing Accounts	Exclusion
Finance Charges	Inclusion
HUB Revenue	Inclusion
Investment Income	Inclusion
Memorandum Accounts	Exclusion
Miscellaneous Revenue – Other	Exclusion
Refunds	Included
Rent from Property Used in Operations	Inclusion
Sale of Gas	Inclusion
Tracking Accounts	Exclusion
Uncollectible Bills	Included

## ATTACHMENT B

### Attachment 2

#### Examples of Operating and Non-operating Revenue SCE

<u>Type of Revenue</u>	<u>Recommended for Inclusion or Exclusion</u>
Connection to Transmission Lines	Inclusion
Decommissioning Trust Fund	Excluded
Electric Deferred Revenue Account (EDRA) Refund	Excluded
Field Collection Charges	Inclusion
Firm Transmission Rights Auction Revenue	Inclusion
Gain on Disposition of Property - Transmission	Inclusion
Generation Business Unit Revenues	Inclusion
Interconnect Charges	Inclusion
Interconnect Facilities Charges	Inclusion
ISO-Congestion Revenue	Inclusion
Joint Pole Rentals	Inclusion
Late Payment Charges and/or Forfeited Discounts	Inclusion
Miscellaneous Electric Revenue	Inclusion
Miscellaneous Service Revenue - Other	Inclusion
Miscellaneous Service Revenue – Ownership Cost	Inclusion
Non-Tariff Revenue	Inclusion
Revenue – Transmission of Electricity – Others	Inclusion
Sales of Electricity	Inclusion
Sales of Surplus/Excess Energy	Inclusion



ATTACHMENT B

Attachment 2

**Examples of Operating and Non-operating Revenue SCE**

<b><u>Type of Revenue</u></b>	<b><u>Recommended for Inclusion or Exclusion</u></b>
Service Establishment Charges	Inclusion
Service Reconnection Charges	Inclusion
Services Rendered	Inclusion
Settlements/Incentive Plan Awards	Inclusion
Use of Transmission Line	Inclusion
Wheeling Revenue	Inclusion
Wholesale Distribution Access Tariff	Inclusion